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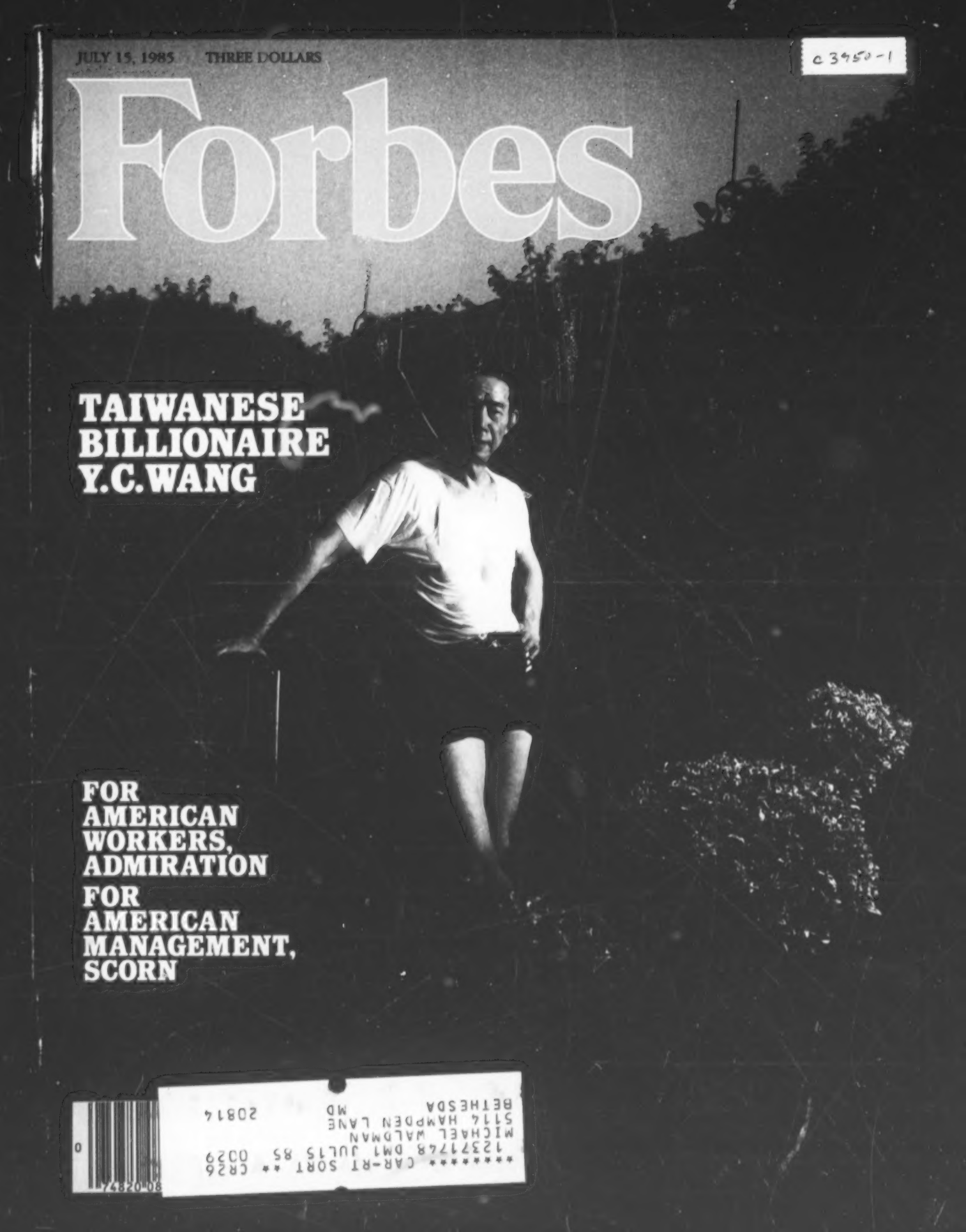
JULY 15, 1985 THREE DOLLARS

Forbes



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FOR AMERICAN WORKERS, ADMIRATION

FOR AMERICAN MANAGEMENT, SCORN

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Forbes

July 15, 1985
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Number 2

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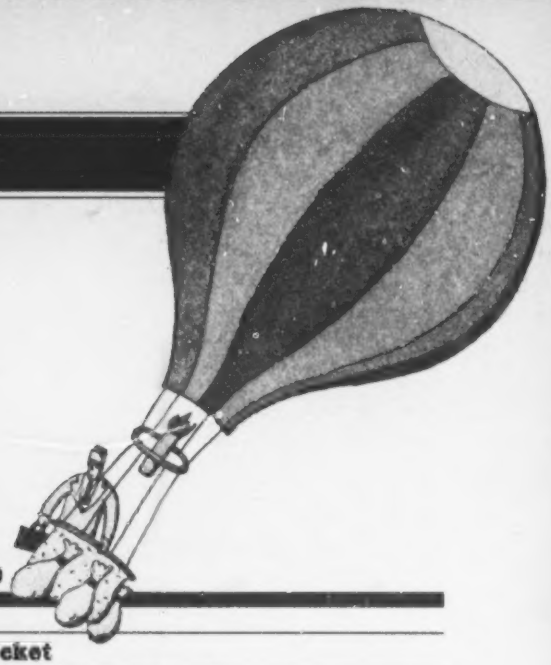

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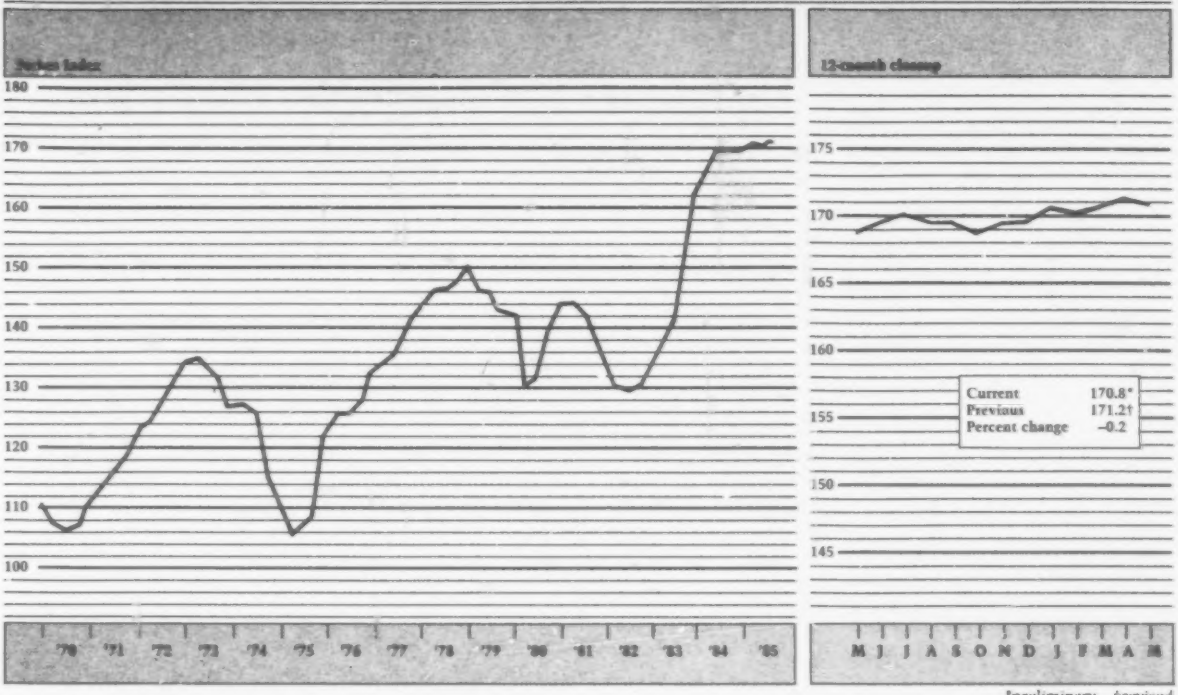
The Forbes Index



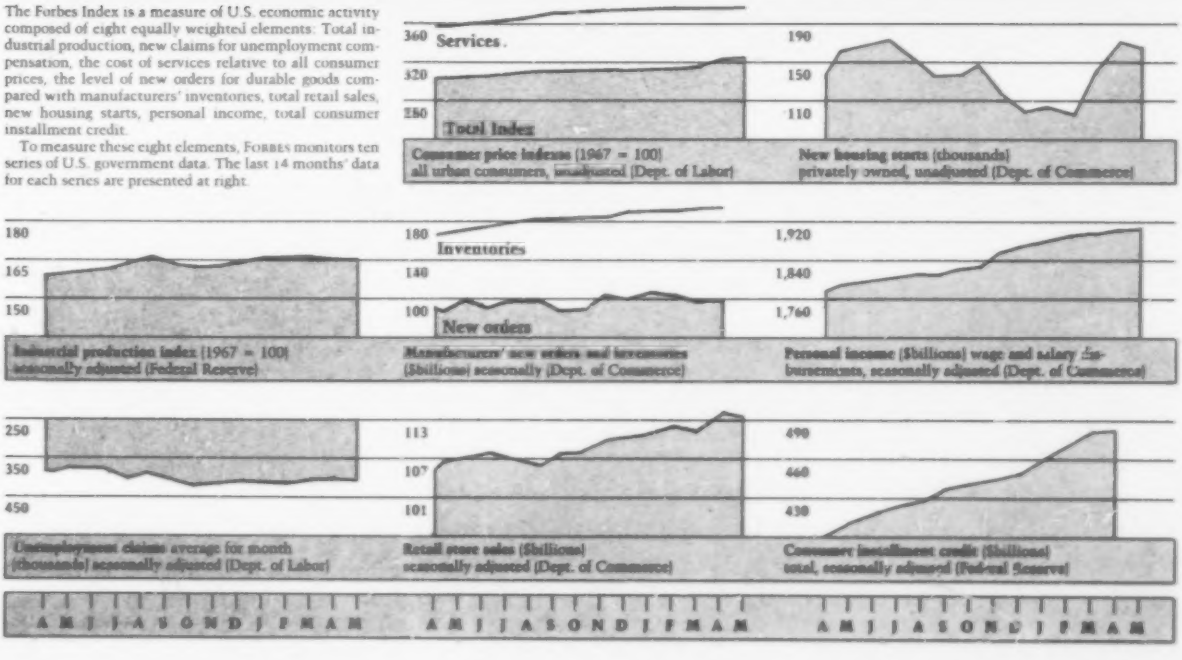
What about housing? New housing starts in May fell 3.9% from the previous month, helping push the Forbes Index down 0.2%. But 1985 could still be a decent year for housing. April, 21% higher than March, was an unusually strong month, so the May figures are really not that bad. And with interest rates declining, patient individuals may be waiting for even cheaper mortgages. One problem, however, is consumers' nonmortgage debt. Consumer installment credit rose 0.6%, to a new record level.

May retail sales fell 0.8%, and industrial production dropped 0.1%. New unemployment claims are 11.3% greater than they were one year ago. The Consumer Price Index is up 0.4% over the previous month, while the cost of services rose 0.7%, or 8.6% on an annualized basis.

The Forbes Index Components

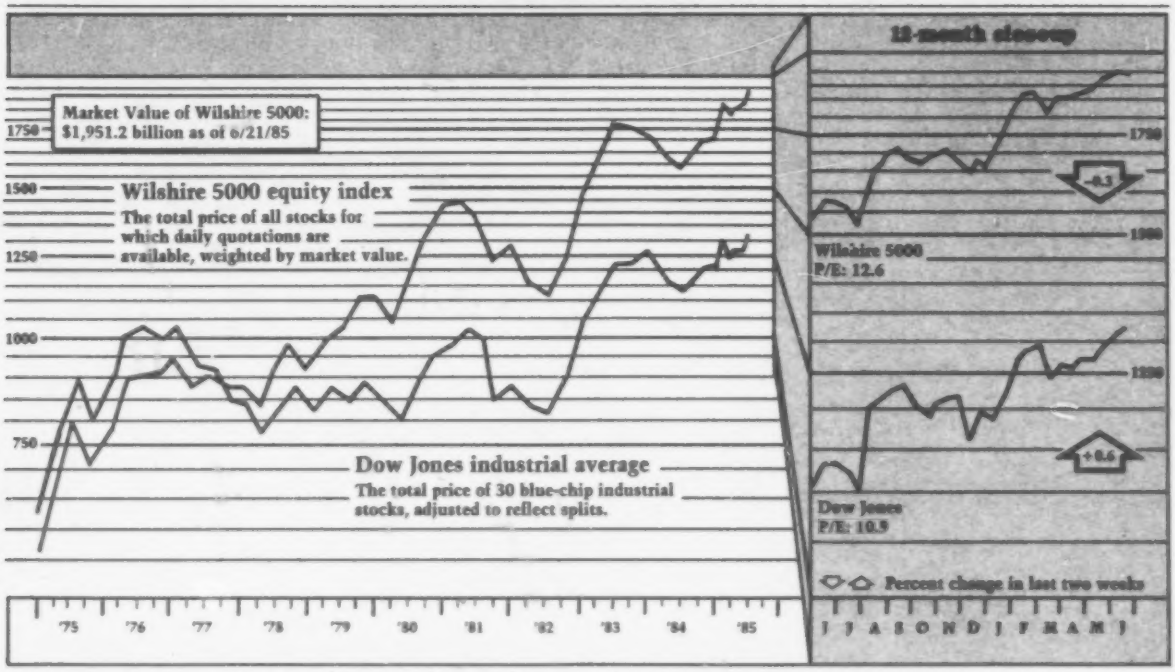
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



How expensive are stocks? The Wilshire index is selling at 12.6 times latest 12-month earnings. The last time it had such a hefty price tag was February 1984, when the Dow was about a dozen points shy of the 1300 barrier. So it has taken a year and a half for market values to get back to where they were. Compare August of 1982, when the Wilshire was priced at only 7.1 times earnings. With interest rates lower now—T bills yield 7% to 8%—a case could be made that stocks are not overpriced. But at a 12.6 P/E, the earnings yield, the inverse of the P/E, is not quite 8%. Is that adequate reward for investment risk?

Thanks to an enormous last-minute burst on June 21, the Dow industrials finished with a 0.6% two-week gain. This puts the Dow only a few points shy of its recent alltime high. The only other winner during this stretch was the Forbes Sales 500, which rose 0.5%. Meanwhile, the NYSE fell 0.1%, the Amex 1.1%, the Nasdaq 0.8% and the Wilshire index 0.3%.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.6	1.5	1.7	0.9	–1.9	–1.2
in last 52 weeks	23.1	25.2	17.1	21.3	11.7	19.7

Stock performance based on six key investor yardsticks

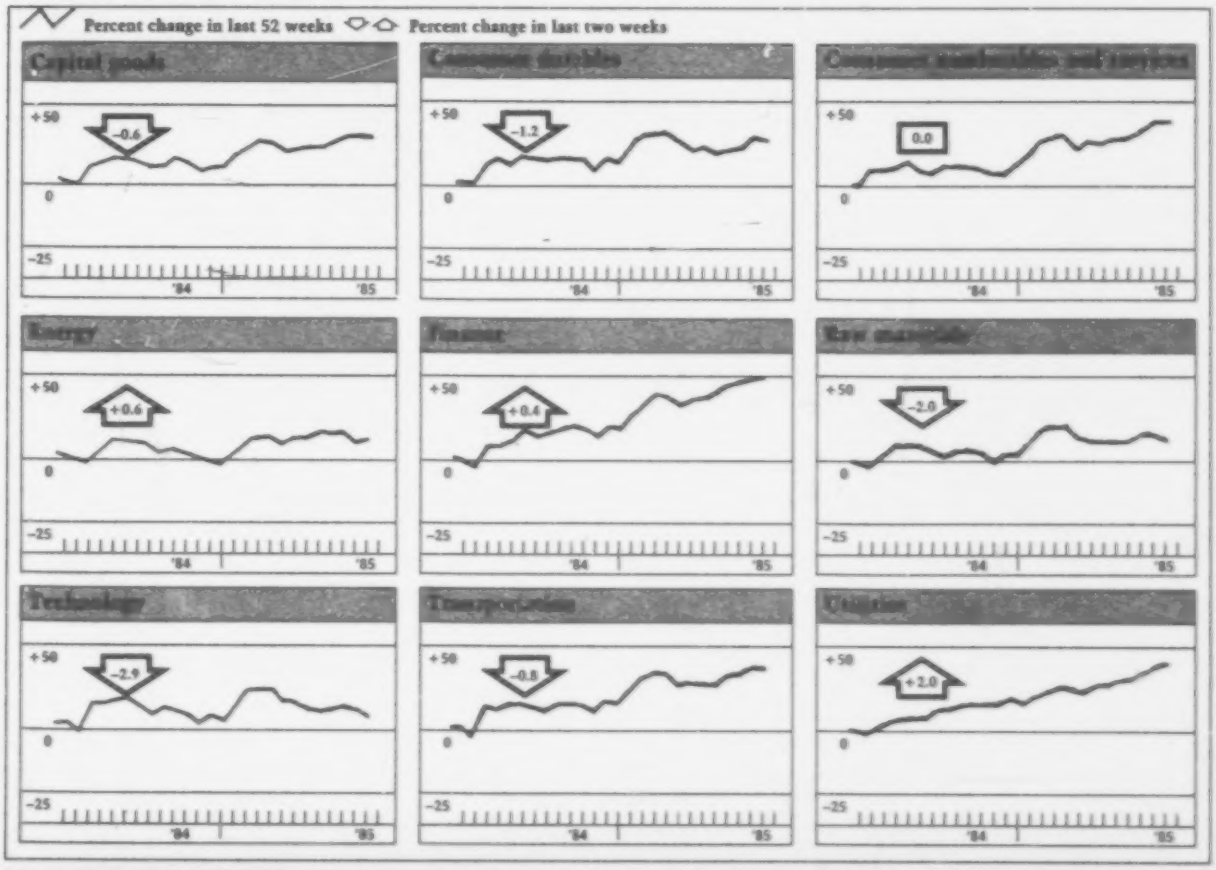
Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 15	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	1.0	–1.2	–0.1	2.4	–2.7	1.9	1.8	–3.2	–1.9	2.2	1.7	–3.0
in last 52 weeks	27.8	14.6	15.9	37.1	8.6	30.2	34.3	19.1	11.9	30.2	33.9	1.3

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High volatility means here/wide price fluctuations, low volatility means are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/21/85. Prepared by Wilshire Associates, Santa Monica, Calif. Kenneth Akers

Where The Action Is

Widows and orphans clean up. The utilities sector registered another strong performance, with a two-week gain of 2%, enough to lead all other groups. What's so appealing about utilities? One, lower interest rates make utility dividends more attractive. Two, lower inflation reduces the damage from regulators' delays in acting on rate cases. Three, slackening in construction programs makes dividend increases more likely. To top it off, this time around the market also responded to the chance that better days were ahead for two troubled utilities, Cincinnati Gas & Electric and Long Island Lighting. These were among the top-performing stocks in this sector. On a 52-week basis the utilities are up 37.7%, which puts this group's rise second to the 46.1% gain for finance shares.



What The Analysts Think

Is the worst behind us? Analysts have been doing a lot of estimate-cutting in the past six months. They were catching up with the reality of a nearly flat economy in the first quarter. Now, Wall Street's seers have quietly raised some forecasts. Estimates for the finance and consumer nondurables sectors rose over the last two weeks.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.51	11.5
1985 estimates	4.09	9.9
1986 estimates	4.66	8.7

Rank based on change in estimates	Sector	Estimated 1985 EPS	P/E	% change in 1985 estimates for 4 weeks	% change in 1985 estimates for 13 weeks
1	Finance	$3.31	10.1	0.25%	0.52%
2	Consumer nondurables	2.47	12.9	0.06	0.73
3	Utilities	3.40	0.5	-0.07	-0.41
4	Consumer durables	4.71	7.8	-0.37	-0.35
5	Transportation	2.90	9.8	-0.41	-0.96
6	Energy	3.81	8.2	-0.48	-0.75
7	Technology	2.74	11.6	-0.54	-1.47
8	Capital goods	2.81	11.0	-0.56	-1.13
9	Raw materials	2.17	11.4	-2.09	-4.00

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 6/21/85. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.